



Testimony of Howard G. Rifkin
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SUBMITTED TO THE FINANCE, REVENUE AND BONDING COMMITTEE
MARCH 22, 2010

Senator Daily, Representative Staples, and members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to appear before you today. There are five bills on the agenda for today's public hearing for which we offer our comments: two bills were submitted by the Treasurer; another has been offered by the Governor; and the remaining two were raised by this Committee.

First, the good news. Both bills submitted by the Treasury would generate revenues. The first is **Senate Bill 443, *An Act Concerning the Cancellation of Unissued Bond Fund Authorizations***. This bill, if enacted, would cancel unissued authorizations from certain inactive bond funds and, with the approval of the State Bond Commission, allow the remaining cash balances in these bond funds to be transferred to the General Fund in accordance with section 3-21(b) of the general statutes. Passage of this legislation would release over \$9.22 million of unspent bond proceeds to the State's General Fund, and approximately \$181,000 that could be transferred to university self-liquidating funds. If the required action is taken by both the Legislature and the Bond Commission before June 2010, the proceeds could be credited to the General Fund for the 2010 fiscal year.

The second bill offered by the Treasury is **Senate Bill 431, *An Act Concerning Collateral for Securities Lending by the State Treasurer***. This proposal would amend current statute to expand the category of collateral that may serve as consideration for the lending of securities from combined investment funds established pursuant to section 3-31b. Passage of this legislation would enable the Treasury to generate investment income of approximately \$2 million annually, depending on market conditions. By way of background, existing law limits the types of collateral that may serve as consideration for repurchase agreements and securities lending to cash or securities guaranteed by U.S. government or any U.S. agency. Since the statute was enacted in the 1970's, the economy has grown considerably more global, and the pension fund would benefit from being able to lend its international securities. In order to fully accomplish that, we seek legislative change that would add to the categories of collateral, and allow for highly rated debt of G10 countries to serve as collateral. In this way, we believe that investment income to the pension fund would be maximized without materially increasing risk, particularly given that the external firm managing the securities lending program fully indemnifies the State against any potential losses that may arise from lending securities. With respect to repurchase agreements, the securities would be collateralized in excess of 100 percent.

Turning to the other bills on today's agenda, you have before you a submittal from Governor Rell, **Senate Bill 27, *An Act Limiting State Bond Authorizations***. The bill, as we understand it, endeavors to do two things: the first is to sunset legislative bond authorizations that have not received any allocation from the State Bond Commission in five years; the second is a requirement that the debt limit be calculated on the basis of consensus revenue estimates or the revenue estimates adopted annually by the Finance, Revenue & Bonding Committee, whichever is more recent.

We believe the first provision may inadvertently create more problems than it seeks to address. Specifically, it must be very clear what is meant by "any specific item of authorization," given that existing bond authorizations take several different forms. For example, there are programmatic

bond authorizations such as those for school construction. It is likely intended that such programmatic bond authorizations be outside the sun setting provision -- one could say that these are not "specific items," or one could say that the program is a specific item of authorization that has received an allocation and therefore will not sunset. However, one could also interpret each increase in the programmatic amount as a new specific item with a five year provision, and need to track whether an allocation against the increased amount has been made. It is also possible to interpret this as meaning that each school project is a specific item of authorization.

Given this ambiguity, we respectfully suggest alternative language that would require OPM to prepare an annual report of authorizations that will sunset before the beginning of the next regular legislative session. In order to identify what "specific items of authorization" will sunset absent legislative action, we suggest that OPM submit a report to the co-chairs of Finance, Revenue and Bonding at the beginning of each regular legislative session that identifies those specific items which OPM believes have expired or will expire absent legislative action in that session, and that this report be conclusive. This will provide definitive guidance to the Treasurer's Office (for bonding purposes), bond counsel, and the General Assembly as to the items that, absent action, will have expired. We have offered proposed language for your consideration, as well as to OPM, and have included it with this testimony.

As for the second objective of the bill, it would require calculation of the debt limit on the basis of consensus revenues issued three times in a given year, rather than revenues adopted by the Finance, Revenue and Bonding Committee. Thus, the debt limit could go up or down in the course of a fiscal year. The problems presented by this potential fluctuation are two-fold.

- The debt limit could preclude issuing bonds to fund capital expenditures already made. Once the Bond Commission has allocated bond funds, the State is authorized to incur expenditures. In most cases, these expenditures are funded on an interim basis from the State's common cash, and the relevant accounts develop negative balances. Periodically, the State issues bonds to fund these expenditures; bond proceeds increase the State's common cash and the "red balances" in the relevant accounts are brought back to zero. (This mechanism simplifies recordkeeping for Federal tax purposes, among other things.) Since the debt limit is tested when bonds are issued, not when the capital expenditures are made, if the debt limit is reduced it could prevent issuing bonds to fund capital expenditures already made.
- The debt limit could preclude completing a project partially funded. The State issues bonds periodically in the course of the year, as market conditions and cash needs indicate, and thus a capital project may be bonded in stages. If the debt limit is reduced in the course of a year, it may be impossible to fully fund a project.

Turning to other proposals raised by this Committee, I'd like to offer a brief comment on **House Bill 5535, *An Act Concerning a Monthly Report from the State Treasurer Regarding the State's Cash Balance***. As a threshold matter, we frequently and gladly share weekly reports of the State's cash balance, and would not object to formally codifying this practice. One provision of this bill, however, is unclear and may, based on our interpretation, be difficult to implement.

Specifically, the bill calls for a report to include "the amounts in the common cash fund, with all components and the amounts thereof separately listed." A challenge arises because the common cash pool includes revenue sources that have daily inflows and outflows, such as funds received under the American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA funds are revenue sources for, and are credited to, the balances of individual funds (such as the General Fund and the

Transportation Fund). Moreover, most ARRA funds are received as reimbursements for state expenditures, and arrive after the disbursement by the state on ARRA-funded projects or programs (generally, federal reimbursement draw downs are timed so that they are received via electronic transfer in state bank accounts when disbursements, on average, clear state bank accounts). Thus, there is not a separate, traceable ARRA cash balance. As such, we would respectfully recommend deleting subsection (4) of the bill for this reason or, alternatively, substituting language that we have proposed and attached.

With respect to **Senate Bill 484, *An Act Concerning the Governor's Revenue Plan***, the Treasury and OPM have previously submitted a detailed plan identifying a number of potential options to securitize or finance a \$1.3 billion revenue shortfall for Fiscal Year 2011.

The State Treasurer's Office stands ready to work with you and provide whatever additional assistance and information you may need in arriving at a decision on this question.

PROPOSED SUBSTITUTE LANGUAGE FOR S.B. 27

AA LIMITING STATE BOND AUTHORIZATIONS

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Section 1. (NEW) (*Effective July 1, 2010*) Notwithstanding any other provision of law, any specific item of authorization for general obligation bonds of the state shall expire five years after the effective date of such authorization if no amount has been allocated by the State Bond Commission from such specific item during such five-year period. If the State Bond Commission has allocated any portion of such item during such period, such authorization shall continue unless otherwise terminated by law. The Secretary of the Office of Policy and Management shall submit a report on or before the start of each regular legislative session identifying each specific item of authorization that has expired pursuant to this section since the last such report, or will expire pursuant to this section before the start of the next following regular legislative session, absent allocation by the State Bond Commission, and such report shall be conclusive for all purposes as to the specific items of authorization that have expired.

Sec. 2. Subsection (a) of section 3-21 of the 2010 supplement to the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2010*):

- (a) No bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the state shall be authorized by the General Assembly or issued except such as shall not cause the aggregate amount of the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and the total amount of such indebtedness which has been issued and remains outstanding to exceed one and six-tenths times the total General Fund tax receipts of the state for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by [the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis, in accordance with the provisions of section 2-36c, or by] the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding in accordance with section 2-35 [*whichever estimate is most recent.*] If a regular session of the General Assembly shall adjourn sine die and the joint standing committee of the General Assembly shall not in such regular session have estimated total General Fund tax receipts of the state for the next ensuing fiscal year in accordance with section 2-35, then total General Fund tax receipts of the state for such fiscal year for purposes of this section shall be as contained in the most recent April 30 consensus revenue estimates for such year in effect pursuant to the provisions of section 2-36c. In computing such aggregate amount of indebtedness at any time, there shall be excluded or deducted, as the case may be, (1) the principal amount of all such obligations as may be certified by the Treasurer (A) as issued in anticipation of revenues to be received by the state during the period of twelve calendar months next following their issuance and to be paid by

application of such revenue, [or] (B) as having been refunded or replaced by other indebtedness the proceeds and projected earnings on which or other funds are held in escrow to pay and are sufficient to pay the principal, interest and any redemption premium until maturity or earlier planned redemption of such indebtedness, [or] (C) as issued and outstanding in anticipation of particular bonds then unissued but fully authorized to be issued in the manner provided by law for such authorization, provided, as long as any of such obligations are outstanding, the entire principal amount of such particular bonds thus authorized shall be deemed to be outstanding and be included in such aggregate amount of indebtedness, or (D) as payable solely from revenues of particular public improvements, (2) the amount which may be certified by the Treasurer as the aggregate value of cash and securities in debt retirement funds of the state to be used to meet principal of outstanding obligations included in such aggregate amount of indebtedness, (3) every such amount as may be certified by the Secretary of the Office of Policy and Management as the estimated payments on account of the costs of any public work or improvement thereafter to be received by the state from the United States or agencies thereof and to be used, in conformity with applicable federal law, to meet principal of obligations included in such aggregate amount of indebtedness, (4) all authorized and issued indebtedness to fund any budget deficits of the state for any fiscal year ending on or before June 30, 1991, (5) all authorized indebtedness to fund the program created pursuant to section 32-285, (6) all authorized and issued indebtedness to fund any budget deficits of the state for any fiscal year ending on or before June 30, 2002, (7) all indebtedness authorized and issued pursuant to section 1 of public act 03-1 of the September 8 special session\*, (8) all authorized indebtedness issued pursuant to section 3-62h, (9) any indebtedness represented by any agreement entered into pursuant to subsection (b) or (c) of section 3-20a as certified by the Treasurer, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness, and (10) all indebtedness authorized and issued pursuant to section 3-20g. In computing the amount of outstanding indebtedness, only the accreted value of any capital appreciation obligation or any zero coupon obligation which has accreted and been added to the stated initial value of such obligation as of the date of any computation shall be included.

PROPOSED SUBSTITUTE LANGUAGE FOR H.B. 5535

AAC A MONTHLY REPORT FROM THE STATE TREASURER  
REGARDING THE STATE'S CASH BALANCE

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(Treasurer's proposed substitute language is double-underlined below.)

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 3-37 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2010*):

(a) The Treasurer shall, annually, on or before December thirty-first, submit a final audited report to the Governor and a copy of such report to the Investment Advisory Council, which shall include the following information concerning the activities of the office of the State Treasurer for the immediately preceding fiscal year ending June thirtieth: (1) Complete financial statements and accompanying footnotes for the combined investment funds prepared in accordance with generally accepted accounting principles, which financial statements shall be audited in accordance with generally accepted auditing standards and supplementary schedules depicting the interests of the component retirement plans and trust funds; (2) complete financial statements and accompanying footnotes for the Short Term Investment Fund prepared in accordance with generally accepted accounting principles and supplementary schedules listing all assets held by the Short Term Investment Fund; (3) a discussion and review of the performance of the combined investment funds and Short Term Investment Fund for such fiscal year in accordance with recognized and appropriate performance presentation and disclosure, including an analysis of the return earned by the portfolio and each combined investment fund as well as the risk profile of the portfolio and each combined investment fund according to investment industry standards; (4) the activities and transactions in such reasonable detail as is appropriate of the cash management division including information on the state's cash receipts and disbursements for the fiscal year, and the debt management division including the financial statements of the tax-exempt proceeds fund prepared in accordance with generally accepted accounting principles; (5) financial statements and accompanying footnotes as well as a summary of operating results for the Second Injury Fund for such fiscal year; (6) a financial summary and report on the activities of the state's unclaimed property program for such fiscal year; (7) a listing of the companies from which state funds were divested based upon such companies' business in Sudan, pursuant to the provisions of section 3-21e, and any companies identified by the Treasurer as companies from which investment of state funds has been declared impermissible by the Treasurer, pursuant to the provisions of section 3-21e; and (8) such other information as the Treasurer deems of interest to the public.

(b) Commencing October 1, 2010, and monthly thereafter, the Treasurer shall submit a report to the chairpersons and ranking members of the joint standing committees of the General Assembly having cognizance of matters relating to finance, revenue and bonding and appropriations and the budgets of state agencies, and to the legislative Office of Fiscal Analysis. Such report shall include the following information for the month two months prior to the month in which the report is submitted: (1) A weekly list of the cash balance,

with amount and percentage of sources, such as the common cash pool, bond fund investments, and Transportation Fund investments, with accompanying footnotes; (2) a year-to-date total, on an ongoing basis, of authorized but unissued bonds, including assumptions in bond issuance, and any changes from month to month in such assumptions; (3) any other debt instruments or commercial paper issued, the types and amounts, with accompanying footnotes; and (4) the amounts in the common cash fund, with all components, such as bank and different investment accounts, and the amounts thereof separately listed.

[(b) The report] (c) The reports required pursuant to this section shall be made available to the public in hard copy and accessible electronically by means of the Internet or other media or systems available to the public.